

Historical Papers Communications historiques



A Backwoodsman and an Engineer in Canadian Business: An Examination of a Divergence of Entrepreneurial Practices in Canada at the Turn of the Century

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Volume 12, numéro 1, 1977

Fredericton 1977

URI : <https://id.erudit.org/iderudit/030826ar>

DOI : <https://doi.org/10.7202/030826ar>

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Éditeur(s)

The Canadian Historical Association/La Société historique du Canada

ISSN

0068-8878 (imprimé)

1712-9109 (numérique)

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Citer cet article

Regehr, T. D. (1977). A Backwoodsman and an Engineer in Canadian Business: An Examination of a Divergence of Entrepreneurial Practices in Canada at the Turn of the Century. *Historical Papers / Communications historiques*, 12(1), 158–177. <https://doi.org/10.7202/030826ar>

Résumé de l'article

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Précis

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In 1895 an unemployed railway contractor tried to interest several of his friends in a modest western Canadian railway project. One of these friends responded very enthusiastically; the other categorically refused to have anything to do with the project.

There is, of course, nothing new or unusual in the fact that a business proposition which appeals to one entrepreneur might fail to interest another. The business historian must, however, try to understand and explain how and why the businessmen he writes about make important decisions. This task is made difficult by the fact that most business records, such as minute books, contracts, stock registers, and official correspondence rarely include detailed and forthright explanations of the decisions made. Personal correspondence, evidence given before inquiry commissions, and recollections and reminiscences of businessmen, if they are available at all, are often so coloured by self-interest that they are less than impeccable sources of information. The questions nevertheless remain. Why does a businessman become involved in one project and not another? Why does one businessman favour one particular form of financing while another chooses to raise money in a very different way? Why does one entrepreneur agree to particular arrangements with governments while another vehemently rejects such arrangements? What factors determine that one employer experiences stormy and difficult relations with his employees while another enjoys comparatively happy employer-employee relations?

This paper does not provide any general or conclusive answers to these questions. It merely examines a few aspects of the careers of two Canadian businessmen; these being William Mackenzie and Herbert Holt. The careers of these two men ran along parallel lines for more than two decades; indeed the two were partners in a series of railway contracting ventures for nearly a decade. In the 1890's, however, the careers, business policies and practices of these two men diverged sharply. Herbert Holt established himself in Montreal and adapted his practices to that environment while William Mackenzie's most important business undertaking was a railway described as "the West's Own Product to meet the West's own need."

This paper attempts to explain how, in several important respects, the policies of Holt and Mackenzie diverged. It seeks to demonstrate that William

Mackenzie, a product of the Ontario backwoods, remained essentially a frontier entrepreneur with a recklessly expansionist backwoods developmental strategy. Herbert Holt, a professional engineer and a product of Dublin's Protestant middle class, became a very cautious and rather unimaginative business technocrat, guided above all by the philosophy of *laissez-faire*.

Brief Outline of the Careers of Herbert Holt and William Mackenzie

William Mackenzie was born in 1848 at Kirkfield, Ontario.¹ He saw and participated in the construction of the first railways into that part of Ontario. His early undertakings in a small lumber business and as a railway tie cutter and sub-contractor were typical Ontario frontier undertakings. Mackenzie had a very limited education and no financial resources when he began cutting railway ties for the Credit Valley Railway, but he was ambitious, energetic, and able to complete work he had undertaken to the satisfaction of the railway's construction engineers.

The construction of the Credit Valley Railway was supervised and controlled by a small two-man engineering staff.² A young Scottish engineer named James Ross was construction manager. He was assisted by Herbert Holt, a nineteen year old Irish immigrant who had just completed his studies at Trinity College, Dublin. Holt was hired as a draftsman and general office boy, but when difficulties with financiers and contractors led to a consolidation of all contracting work on the railway in the hands of the railway's technical staff his responsibilities quickly increased. When the promoters of the Credit Valley Railway became involved with another frontier railway, the Ontario and Quebec Railway, Ross and Holt were given engineering responsibilities on that railway as well. Construction of the Credit Valley and of the Ontario and Quebec railways nevertheless proved disappointing since the railways depended heavily on government assistance and that assistance was not always available as quickly as the promoters and the construction engineers wished.

In 1883 the recently chartered Canadian Pacific Railway acquired the Credit Valley and the Ontario and Quebec Railways.³ When the Canadian Pacific encountered financial and practical difficulties with its American contractors and sub-contractors on the mainline between Winnipeg and the Pacific coast, the two young engineers from the Credit Valley Railway were given general responsibility for the completion of the C.P.R. mainline. James Ross and Herbert Holt soon found construction contracts for several former Credit Valley contractors, including William Mackenzie.

By all accounts Ross and Holt were effective, albeit often ruthless, construction managers. They certainly worked to General Manager Van Horne's entire satisfaction, but in 1885 they encountered difficulties in obtaining bids from contractors for several particularly difficult sections in the mountains. They found it necessary to negotiate open ended contracts under which contractors would be paid for any costs incurred and a fixed percentage above that which

would be their profit. These contracts guaranteed an adequate financial return. They entailed difficult work, but little or no risk whatever for someone technically competent. Herbert Holt, who had helped negotiate the first of these contracts, found them personally attractive and in 1885 he resigned his salaried position as Superintendent of Construction to take up one of these difficult contracts which offered large and entirely safe returns.⁴

After completion of the C.P.R. mainline James Ross and Herbert Holt joined with contractors William Mackenzie and Donald Mann in a series of railway construction contracts. One of these contracts ended in scandal, the defeat of a provincial government, and serious financial losses for the contractors. Other contracts proved very lucrative. In the early 1890's, however, railway construction in Canada came to a virtual standstill and each of the above-mentioned contractors looked elsewhere for work. James Ross and Herbert Holt went to Montreal, Ross to become involved in coal and steel ventures and in the construction and promotion of Montreal Street Railways; Holt in the promotion and management of gas and electric companies and of the Royal Bank of Canada, Mackenzie went to Toronto where, with assistance from Ross and others, he reorganized and expanded that city's tramway system. Mann went abroad looking for railway construction projects in Chile and Hong Kong.

In 1895 Donald Mann again found railway work in western Canada. He invited both Herbert Holt and William Mackenzie to join him in this new work, but only Mackenzie responded positively. Mackenzie, like Mann, was convinced that the future greatness of Canada and opportunity for entrepreneurial success and profit lay in the opening up and development of the western prairie region. Railways were the main instrument in that development. As a result William Mackenzie became, in time, president of a western frontier railway which expanded to become a transcontinental system but never really lost its frontier mentality. Herbert Holt, in contrast, rose to positions of power and influence as President of Montreal Light, Heat and Power Company and President of the Royal Bank of Canada. In time the decisions made in William Mackenzie's private railway car or in the ramshackle offices on King Street in Toronto came to differ greatly from those made in the executive offices of the Power Building in Montreal.

Relations with Governments

Herbert Holt and William Mackenzie were both supporters and members of the Conservative Party of Canada. Their attitudes and dealings with governments, and particularly their response to government assistance to and regulation of business, nevertheless diverged sharply.

Herbert Holt was unequivocal in his support of the principles of *laissez-faire*, and in his opposition to any government involvement in the affairs of the business community. In Montreal he found the economic, political and religious

environment suited to his ideas. He personified the so-called Cartier or Victorian compromise between church, state and business in the Province of Quebec. Each of these groups had their separate and fairly well defined interests and spheres of influence, and it was generally agreed in Quebec that each should interfere as little as possible in the affairs of the others.⁵

Economic development and diversification was generally considered a desirable objective by all three groups in Quebec. These three groups also agreed on the development strategy to be followed. The natural resources of the province should be entrusted to private enterprise for development which would create jobs for some of the French Canadians leaving the province in search of work in the United States, and a strong resource and tax base to subsidize and support impoverished rural communities. Certainly most Quebec politicians accepted economic development and industrialization as desirable. The clergy, while beset by occasional misgivings, also gave it their support.

The government and the church were not prepared, however, to become directly involved in the promotion and regulation of entrepreneurial activity in the Province. In Quebec, according to one historian, "Politicians seemed to believe that their duties to economic development were acquitted provided they satisfied the whims of English and American big business and generously entrusted to their benevolent care the rich resources of the Province."⁶ Once the resources were safely conveyed to the entrepreneurs the politicians preferred a hands-off *laissez-faire* policy. They provided neither assistance nor regulation if entrepreneurs were able to handle the situation.

This *laissez-faire* attitude was deeply rooted in French Canadian concepts of politics and business. The two were quite simply regarded as incompatible. A politician dependent on the votes of the people could not make the tough decisions which were needed to bring a business venture to success. Prime Minister Laurier, for example, was convinced that companies must have and exercise a freedom and flexibility which governments did not and could not have. Government ownership or careful regulation of business would only lead to disaster.⁷

This *laissez-faire* attitude was very popular in the executive offices of the Power Building in Montreal. Herbert Holt was not impressed by the record of government aid to businessmen, notably to western railway promoters. His experiences with governments, government subsidies, land grants and contracts, particularly in connection with his construction contract on the Hudson's Bay Railway, had not been happy. That contract had left him and Donald Mann with virtually useless government bonds as their only compensation.⁸ The direct involvement of governments in the financing of projects such as the Calgary and Edmonton Railway and the Qu'Appelle, Long Lake and Saskatchewan Railway had been wasteful and inefficient.⁹ On these projects the contractors, Holt included, had earned very substantial returns, but they left Holt with nothing but disdain for the business acumen of most politicians. Even that most sacred idol of Canadian businessmen, the protective tariff, occasionally drew Holt's wrath,

particularly when it sheltered a less efficient competitor whose business Holt wished to absorb into his entrepreneurial empire. He certainly feared government meddling and interference in business far more than he feared American and international competition. Once the natural resources of the province were safely in his control Holt asked no aid, and certainly wanted no government planning or regulation in developing and exploiting those resources. He thought the government had no business telling him what prices he should charge, to whom he should offer preferential power or interest rates, and that the church had no business telling him what constituted fair business practice or adequate wages and working conditions. These were business decisions governed only by the dictates of profit and loss. Leases and taxes paid by the resource industries provided great economic benefits and helped to subsidize the regrettably backward agricultural communities in which most French Canadians still lived. This alone was sufficient justification for the admittedly generous water, timber and resource leases and concessions. Profits, and hence taxes, leases and royalties, could only be sustained and maximized if businessmen were left alone to pursue their interests as they saw fit.

William Mackenzie's attitude was different.¹⁰ He agreed that governments should grant businessmen resource leases and concessions and allow businessmen to develop those resources. He too had nothing but disdain for the business acumen of politicians, but he was convinced that many worthy development projects would not be undertaken as quickly as possible if governments simply granted charters and resource leases. On the frontier development capital was very scarce. There were no significant local sources of capital and private investors had grown wary of adventures in the new and unproven regions of Canada after decades of depression and lost investments. It was therefore necessary for governments to provide assistance and encouragement for worthy ventures if the frontier regions of Canada were to be opened up and developed. Montreal entrepreneurs had access to local sources of capital and the securities of strong business establishments could be sold internationally, but these conditions did not apply in western Canada.

William Mackenzie, unlike some of his contemporaries, recognized that additional government assistance would only be available if the assisted enterprises agreed to submit to some measure of government regulation and control. Governments, except in Quebec, simply could not escape some measure of responsibility for the behaviour of businessmen receiving government aid. The rates or prices charged by government assisted companies for essential commodities and services were particularly important. Mackenzie needed and took government aid; in return he was prepared to yield to government some regulatory control. Government regulation covering specifically the freight rates to be charged on his Canadian Northern Railway¹¹ and the power rates to be charged by his Electrical Development Company¹² in Toronto were acceptable to Mackenzie, provided there were safeguards which prevented governments from forcing his companies into unprofitable operations.

The device of government bond guarantees seemed to combine, in a satisfactory manner, government assistance and government regulation with reasonable safeguards. Businessmen, whether they favoured government guarantees or not, were generally agreed that such guarantees greatly expedited the sale of securities issued by frontier development companies, allowing companies like the Canadian Northern Railway to undertake projects which that company and its promoters could not have undertaken strictly on their own credit. The guarantees also seemed to offer protection against unreasonable government demands and regulations which might force the assisted companies into unprofitable operations. If the assisted companies failed to earn at least moderate profits governments which had provided the guarantees would be required to pay interest and principle on the guaranteed bonds. It was thought that no government would wish to do this and that, in case of real need, such governments would permit price or rate increases sufficient to ensure reasonable profits.

Herbert Holt and a number of other Canadian businessmen were not convinced by such arguments. They feared that any government involvement and regulation would inevitably reduce the assisted company's freedom of action if and when the political interests of the government clashed with the business policies of the assisted company. They were also convinced that, while government bond guarantees might indeed compel the government to ensure that the assisted company succeeded, government regulation might nevertheless lead to operating inefficiencies and rate reductions which would reduce profit margin down to levels sufficient only to pay fixed charges on the guaranteed securities but leaving insufficient profits to pay appropriate dividends on unprotected and unguaranteed equity capital. Finally, if serious difficulties did develop, government meddling would almost certainly increase, eventually leading to nationalization. All these fears were in fact well founded, as the history of William Mackenzie's companies proved.

In the dark days of the 1930's a solicitous federal government suggested a government guarantee of some Quebec power securities. The response from the Power building was quick and firm. "I am entirely opposed to this . . . Should this method be followed, the Company would be subjected to political interference for many years to come, and it would result in a much higher cost to the Company than if we were permitted to operate on our own."¹³

This rejection of government bond guarantees was followed with a very significant assertion. "We are able to sell our securities without any difficulty, and political interference from Ottawa is not needed."¹⁴ C.P.R. officials had said exactly the same thing when offered bond guarantees to build western railway branch lines in the 1890's. William Mackenzie and the companies he organized were never in such a position. The prairie and frontier resource development schemes to which Mackenzie devoted his efforts were regarded in Montreal and London as high risk ventures. Investors lacked confidence in the securities of those companies unless they carried government guarantees. In the 1840's and

1850's many Montreal and Toronto companies had been in a similar position and had demanded and obtained large subsidies, loans and guarantees, but they no longer needed such assistance in the 1890's. Herbert Holt was a representative of a stronger and more mature Montreal capitalism; William Mackenzie represented frontier capitalism.

Mackenzie's ideas were not entirely out of step with the times. The documented abuses of *laissez-faire* in the United States after the Civil War had convinced a number of very large companies in that country and in Toronto that public and political pressure could not be entirely ignored or thwarted. Such entrepreneurs began to think instead of ways and means whereby they might turn government regulation to their advantage. Professor Gabriel Kolko has demonstrated that federal regulatory agencies in the United States were often supported by and tended to serve the interests of big business, particularly in competitive struggles between large and influential companies and smaller and weaker business establishments in the same industry.¹⁵ William Mackenzie, together with many North American businessmen, tried to come to terms with government regulation on the best available terms. Herbert Holt disagreed, and in time came to believe the greater freedom he enjoyed in Montreal would ultimately enable him to beat not only Toronto competition, but also American competition.¹⁶ In fact he very nearly succeeded in establishing several world-wide cartels in the teeth of American opposition, only to be thwarted by the Great Depression.

Attitudes towards Equity and Liability Capitalization

The business policies and practices of Herbert Holt and William Mackenzie diverged most sharply on matters related to capitalization of the companies they dominated. Mackenzie relied very heavily on the sale of guaranteed bonds. He preferred government guarantees, but if these were not available for some new and risky venture Mackenzie cheerfully offered a guarantee by his strongest company for the securities of his weakest and most dubious ventures. Holt avoided bond guarantees of all kinds. He was quite prepared to see weak subsidiary or affiliate companies that were unable to make it on their own fail if it came to a choice between failure and bond guarantees from governments or from one of his stronger companies.

Mackenzie's heavy reliance on the sale of guaranteed bonds allowed him and his associates to retain control of significant portions and, in the case of the Canadian Northern Railway, of almost all of the equity or capital stock of the companies he controlled. Herbert Holt, on the other hand, owned only a small number of shares in the companies he dominated.¹⁷ Mackenzie and his associates said repeatedly that they looked primarily to the capital stock for their entrepreneurial rewards. Holt preferred a very large salary and generous expense allowances.

These attitudes toward capitalization reflected more fundamental attitudes toward business. Mackenzie was essentially an optimistic builder and developer. He discovered new and promising situations everywhere, but particularly in frontier areas where development tended to be very rapid and often reckless. He saw the promise of gains and profit everywhere and organized numerous companies to take full advantage of these opportunities.¹⁸

Herbert Holt, in contrast, was an inveterate pessimist who saw potential ruin and loss everywhere. The world was eternally going to the dogs. Only the greatest degree of caution and managerial skill allowed anyone to escape. At directors' meetings he consistently urged caution. Even the announcement of operating profits of 18 per cent on invested capital could be so hedged about with warnings that it sounded like a bankruptcy declaration.¹⁹ When Holt's cautious advice was not heeded he sometimes found himself pushed out of companies by his more hustling and grasping colleagues, although he often returned when it became clear that their more speculative endeavours had succeeded.

I have outlined elsewhere in greater detail the policies pursued by Mackenzie, particularly on the Canadian Northern Railway.²⁰ Some reference is needed to explain the corporate structure and historical development of the Montreal companies with which Herbert Holt was associated. In particular the corporate histories of the Montreal Gas Company, the Chambly Manufacturing Company, and the merger of all three in the formation of Montreal Light, Heat and Power Company, provide interesting insights into Holt's business methods and his attitudes toward capitalization.

Holt took up permanent residence in Montreal in 1892 when he obtained some contract work from the C.P.R. on their new line from Montreal to Ottawa. He quickly acquired a modest number of shares in the Montreal Gas Company which held a contract with the City of Montreal for the supply of gas for cooking and lighting purposes,²¹ and in the Royal Electric Company which was a supplier of electric power and one of Montreal's larger manufacturers of electrical equipment and machinery. At the time both companies were paying regular dividends, but the market for gas and electricity in Montreal was rapidly increasing. Competition from rival firms was feared, and both companies were faced with a need to expand and to modernize their facilities. As a professional engineer Holt offered very helpful technical and managerial advice and was elected to the Boards of Directors of both Montreal Gas and Royal Electric. These two companies did not, in the 1890's, have other interlocking directorates and were operated independently of one another. Both held lighting contracts with the City of Montreal and several municipalities on the island.

Royal Electric made Holt chairman of its Executive Committee (not President of the Company) in 1893 and under the auspices of this Executive Committee the company's factory was ruthlessly reorganized and modernized.²² In order to reduce costs most of the professional staff, particularly those with seniority and larger salaries and those nearing retirement age and hence likely to become

eligible for the company's rather niggardly pension plan, were fired under one pretext or another. The factory superintendent was ordered to reduce production costs by replacing male with female labour wherever possible and to pay wages on a piece-work rather than on an hourly basis. When the superintendent failed to find grounds for the immediate removal of some of the more highly paid and long term employees he was himself dismissed and a man whose thinking was more in accord with the business principles of the new Executive Committee took his place.

The results proved salutary, at least from a business point of view. Royal Electric's profits increased, but there was still a cloud in the sky. Royal Electric generated most of its power at an old steam plant. A rival manufacturing firm, Chambly Manufacturing Company, had located its factory at Chambly immediately adjacent to a very promising hydro-electric development site. Chambly Manufacturing had installed several small turbines to generate power for its factory but lacked the resources and perhaps the vision, technology and markets to develop and fully utilize the hydro-electric potential of the site. If they ever did so, Royal Electric would be in trouble.²³

The Executive Committee of Royal Electric regarded the Chambly situation as very dangerous. At Holt's urging they commissioned feasibility studies on the transmission of power from Chambly to Montreal and bought up shares in the Chambly Manufacturing Company. Once the feasibility of transmitting power from Chambly was established a new syndicate, including entrepreneurs from both Royal Electric and Chambly Manufacturing, was organized to raise funds, build a new dam and develop the Chambly site. Both Royal Electric and Chambly Manufacturing were to get power from the new development. Thus a potential rival was transformed into an ally of Royal Electric.

Thereafter Royal Electric earned very substantial profits, estimated by one shareholder in 1895 to amount to 16 or 18 percent on invested capital. The company began to pay semi-annual dividends of 5 percent²⁴ but the large profits led to a demand by some shareholders that the capital stock be increased and the new stock distributed among the shareholders. The stock needed a bit of watering, lest there arise suspicions that the returns were too rich. A company manufacturing important machinery and supply power to the City of Montreal and to private subscribers ought to take care lest some demagogue exploit the 18 percent profit. Also to be considered was the undoubted advantage that a stock watering operation has for those performing the operation.²⁵

Herbert Holt, who owned 200 of Royal Electric's 12,000 shares, together with a majority of the directors, opposed the demand by several of the larger shareholders that the stock be increased. The directors eventually agreed that a small amount of preference stock might be issued, but this did not suit some of the more daring or greedy shareholders. In a lengthy memorandum to the Board of Directors Holt and those who supported him urged "a prudent and conservative way". They argued that "the shareholders have reason to be satisfied with

the policy of the Company which has enabled it to maintain the regular 8 percent dividend, and that it would be unwise to imperil such dividend being continued. The history of kindred companies shows that a very large number of them have been entirely wrecked, or have had their stocks depreciated for want of due foresight and caution.”²⁶

This advice did not suit the dissident shareholders. They failed to gain a clear cut victory at a specially called shareholders’ meeting on 17 December 1898, but they were able to defeat the proposal by the directors to issue a modest amount of new preference stock. This inevitably attracted the attention of several investment firms, and the firm of L.J. Forget & Sons, with the encouragement and support of Montreal Street Railway owner James Ross, began to purchase Royal Electric shares. This set the stage for a very bitter proxy fight at the company’s annual meeting held on July 18, 1899. By that time Forget’s investment firm had acquired 4,432 shares; enough to join with the dissident shareholders and defeat Holt and his cautious associates, all of whom failed of re-election as directors of the Company. A new Board of Directors was elected on 18 July 1899 and moved immediately to increase the authorized capital stock of Royal Electric from \$1,500,000 to \$3,000,000.00.²⁷

After 18 July 1899 the focus of conflict shifted from Royal Electric to its erstwhile rival and now uneasy partner, the Chambly Manufacturing Company. Chambly was vital to Royal Electric because of the prospective new power developments at the Chambly dam. Another very bitter proxy fight between Rodolph Forget, the new President of Royal Electric, and Herbert Holt and his associates developed. Prior to a crucial meeting of the shareholders of Chambly Mfg. on 29 September 1899 Holt and his associates, who were still in control on Chambly’s Board of Directors, managed to increase slightly the amount of capital stock of that company, issue this to friendly interests, and thus defeat the Forget forces by a vote of 4350 to 4400.²⁸ The Forget forces denounced the new stock issued as illegal and initiated a series of lawsuits against Chambly Manufacturing Company. Royal Electric also withdrew all its technical and professional staff which had formerly served both Royal Electric and Chambly Manufacturing. When, as a result, Chambly fell behind in the delivery of electric power as stipulated in its contract with Royal Electric, the latter launched a \$234,000 damage suit. In addition personal damage suits against Holt and other Chambly directors were initiated because of some contracts which led to serious losses.²⁹

At the same time the Forget interests negotiated financial arrangements under which the recalcitrant directors of Chambly eventually submitted without costly court battles. Each of the Chambly directors was offered \$30,000 in bonds and coupons if they would cease their opposition to the new owners of Royal Electric. In addition, Herbert Holt was invited to assist in the organization of a new company. As a result, on 20 November 1899³⁰ L.J. Forget & Sons gained effective control of Chambly Manufacturing Company and the pending lawsuits were dropped.

The events of 1899 seemed to throw Holt and his more cautious fellow directors out of both Royal Electric and Chambly Manufacturing. Holt, however, did not remain out in the cold for long. His managerial abilities were well known to, and appreciated by, the new owners of those two companies. Holt's influence with another Montreal company, the Montreal Gas Company, also interested and worried the new owners of Royal Electric and Chambly Manufacturing. It was clearly in everyone's interest if Holt joined his erstwhile opponents and brought the Montreal Gas Company into a partnership with Royal Electric and Chambly Manufacturing.

The Montreal Gas Company provided gas to the City of Montreal and to private subscribers for lighting, heating and cooking purposes. It was a very profitable company, thanks in large part to a lucrative ten year contract with the City of Montreal, negotiated in 1884³¹ and renewed in 1895 in a highly controversial manner.³²

Herbert Holt was elected to the Board of Directors of the Montreal Gas Company in 1892, just as negotiations for the renewal of the company's contract with the City were about to begin. The prices charged by Montreal Gas in the early 1890's were very high at \$1.46 per 1,000 cubic feet of gas, and the services poor,³³ but the company's profits exceeded 12 percent per annum on invested equity capital. The City, understandably, demanded lower rates and improved services; the company's negotiators were unwilling to accept the terms and conditions demanded by the City. As a result, when the Montreal Gas Company's contract expired the City gave a notice of termination, that termination to take effect at the end of May 1895. At the same time the City opened negotiations and came to an agreement with a rival firm, the Consumers' Gas Company, which was a new company promoted by a syndicate of London financiers and underwriters and American oil interests. In 1894 the City authorized Consumers' Gas to construct mains, lay pipes and also enter into contracts with private citizens for the supply of gas. The municipal authorities of St. Henri, St. Cunegonde and the Cote St. Antoine also negotiated new contracts with Consumers' Gas.³⁴

The ensuing battle was not an edifying spectacle. In July of 1894 worried directors of Montreal Gas authorized their President, Jesse Joseph, to "take necessary steps to secure contract with the City for Public Lighting and the supply of the citizens with Gas for another term and to defray expenses in connection therewith."³⁵ The President later reported expenses of between \$10,000 and \$12,000 in the unsuccessful attempt to block a City contract with Consumer's Gas. After authorizing these expenditures the references to the contract are only referred to in the minute books as "irregular conversation". The President later referred to and claimed compensation for expenditures in connection with the Montreal municipal elections. He claimed he had been called upon, in the interests of the company, "to subscribe to the expenses of the municipal election."³⁶

While the company was in the midst of this struggle it elected a new presi-

dent; Herbert Holt was elected president in April of 1894. Holt quickly transferred 40 of his own shares to N.A. Hurteau, whose political influence was expected to help the company. At the same time negotiations were opened with John Coates & Co., the London promoters of Consumers' Gas. Coates & Co. were offered the underwriting of new Montreal Gas debentures and also a participation in the underwriting of some Royal Electric securities if they would agree to a merger between Montreal Gas and Consumers' Gas.³⁷ Holt explained the matter in a fairly forthright way in his first annual report to the shareholders. "There has been issued \$500,000 new stock, of which there was paid (in stock) for the plant, mains, franchises, etc., to St. Cunegonde and St. Henry, of the Consumers' Gas Company, the sum of \$389,480,000 which your Directors decided to purchase from the Consumers' Gas Company in self-defence, as that Company secured the right to supply gas in the City of Montreal and the Municipalities of Cote St. Antoine, St. Cunegonde and St. Henry, and undertook to sell gas for ninety-five cents, which they soon found was under cost price."³⁸

With the acquisition of its rival, Montreal Gas thought itself in a position to negotiate a new contract with the City and the three municipalities. The City demanded terms consistent with those negotiated with Consumers' Gas, but Montreal Gas would have none of that. When the City proved difficult Montreal Gas launched a lawsuit against the City and the municipalities, alleging that Consumers' Gas had been allowed to lay pipe and construct mains before the expiry date of the Montreal Gas Company's contract. At the same time consumers were visited and threatened with a cut-off of services unless they agreed to new long term contracts with Montreal Gas at rates which were higher than those of Consumers' Gas. To the City Montreal Gas offered some reductions which would bring their rates to \$1.00 per 1000 cubic feet of gas used for heating and cooking, and \$1.20 per 1000 cubic feet for gas used for lighting. Consumers' Gas had negotiated a flat rate of 95¢ per 1000 cubic feet. Thus with the stick of a pending lawsuit and the carrot of promised, albeit minor, rate reductions, with the memory of the recent municipal elections still fresh in the minds of grateful counsellors, and with the disappearance of Consumers' Gas, the Light Committee of the City of Montreal recommended that a new contract be signed with Montreal Gas at the prices offered by that company.

The happy outcome of the affair was a very profitable ten year contract with the City, which could be extended an additional five years if, during those five years, Montreal Gas also returned to the City 3% of its gross earnings. The grateful directors of Montreal Gas voted Herbert Holt, their new President, an annual salary of \$10,000 and issued new shares and bonds to defray expansion costs and the cost of taking over Consumers' Gas. Holt did not acquire any of the new shares. After 1895 the capital stock of Montreal Gas consisted of 30,000 shares, held by approximately 650 shareholders. While the exact number of shares held by Holt varied somewhat from year to year, his holdings ranged between 400 and 412 shares.³⁹

Until Holt's removal from the management of Royal Electric and Chambly Manufacturing those companies had generally worked in cooperation with Montreal Gas.⁴⁰ The former promoters of Consumers' Gas underwrote many of the securities of both companies. The takeover of Royal Electric by the Forgets threatened this harmonious and profitable relationship. A conflict was averted when, through the good offices of James Ross, an attractive offer was extended to Herbert Holt. Holt was invited to participate in the formation of a new and greatly enlarged company which would enjoy an effective monopoly in the supplying of light, heat and power in Montreal. The proposed new company was to issue enough stocks and bonds to take over the assets of Royal Electric, Chambly Manufacturing, Montreal Gas and several other smaller companies. \$100.00 shares (par value) of Royal Electric and Montreal Gas were to be exchanged for \$250.00 (par value) shares in the new company. As an additional incentive Herbert Holt was offered the presidency of the new company, and with it managerial responsibilities and a salary tailored to his taste.⁴¹

In the face of such an attractive offer principles and old friends were quickly abandoned. Holt broke with his fellow directors who had opposed the Forget's takeover of Royal Electric and assisted in the merger of Royal Electric, Chambly Manufacturing and Montreal Gas into the new Montreal Light, Heat and Power Company. Montreal Light, Heat and Power immediately issued \$17,000,000 in capital stock and \$7,500,000 in bonds to acquire the old companies and expand their facilities. The transaction netted the promoters and shareholders a very substantial paper profit, but that profit could only be realized if the new company proved its ability to pay interest and dividends on all its securities. It was Herbert Holt's responsibility to ensure that the company succeeded. He personally held only 522 shares when the company was organized. His holdings rose in the next two years to 1,932 shares. L.J. Forget & Sons originally held 70,000 shares and James Ross 15,000 shares in Montreal Light, Heat and Power.⁴²

James Ross was only interested in the new company because he needed cheap power for his Montreal Street Railway, and once a suitable contract was signed he gradually reduced his holdings in the Montreal Light, Heat and Power Company. L.J. Forget & Sons were underwriters and stockbrokers and devoted themselves to the profitable business of huckstering Montreal Light, Heat and Power securities in England, Europe and the United States. Holt managed the company very efficiently and profitably, and for his efforts was voted the princely salary of \$25,000 per annum, a figure that was substantially increased when Holt arranged an accommodation between Montreal Light, Heat and Power Company and the Shawinigan Water and Power Company. Everyone involved in the transaction, except of course the ordinary consumers, was happy. Ross got the cheap power he needed for his street railway, the Forgets had plenty of securities to manipulate and sell, and Herbert Holt had a very important managerial position with a very attractive salary.

While the organization of Montreal Light, Heat and Power proceeded Herbert Holt also became involved in another very important venture. In 1902 a

new bank was organized in Montreal, the Sovereign Bank. It was backed by the firm of J.P. Morgan and Company in New York and by several German financial interests. Holt owned only a few of the bank's shares, but was elected its first President. He soon discovered, however, that Morgan and one of the German bankers wanted to participate in various speculative developmental ventures. Holt particularly opposed a speculative Alaskan adventure, and when it became clear that his cautious advice would not be heeded he resigned as President and Director.⁴³

The Sovereign Bank collapsed in 1906, the Alaskan venture having turned sour, but by that time Herbert Holt had established himself with another bank. In 1905 he was elected a director of the Royal Bank of Canada. This was a Halifax based bank, known until 1902 as the Merchant's Bank of Halifax. The bank had extensive business dealings in Cuba and other Carribean countries, but was anxious to strengthen its position in the City of Montreal. Holt became chairman of the bank's Montreal Credit Committee in 1905. Two years later he was elected Vice-President and in 1908 President of the Royal Bank of Canada; a position he held until 1934, when he resigned to become Chairman of the Board of Directors. During this period the Royal Bank of Canada became Canada's largest bank.⁴⁴

The dual positions as President of Montreal Light, Heat and Power and of the Royal Bank of Canada gave Herbert Holt enormous power and influence in the Montreal business community. Virtually every successful entrepreneur, sooner or later, had need of additional power or capital or both. Such a need brought many an aspiring entrepreneur to the doors of Holt's executive office in the Power Building.

Getting either money or electricity at preferred rates from Holt was never easy, but if particularly promising propositions came along Holt not only helped, he requested and sometimes demanded participation by the power company or the bank. Where a substantial participation was involved Holt often demanded a seat on the assisted company's board of directors, ostensibly to protect the interests of the bank or the power company. Holt himself rarely went out to the backwoods or the frontier in search of new and promising projects. He left that to entrepreneurial bushwhackers like the Forgets, Max Aitken, J. Aldred, and any other aspiring entrepreneur willing to risk his neck and fortune in speculative ventures.⁴⁵ If any such ventures proved successful he always had the means to bring them into his own empire. The frontier entrepreneur might make a quick profit; Holt was after something more substantial and durable. He cherished the kind of control that his administrative and technocratic positions with Montreal Light, Heat and Power, with the Royal Bank and with a rapidly increasing number of promising companies to whose boards of directors he was elected, gave him; not the kind of power and control that ownership of capital stock in speculative developmental ventures offered.

Conclusion

The business careers of William Mackenzie and Herbert Holt followed a parallel course for almost two decades, but then their business practices diverged. William Mackenzie was the son of an Ontario pioneer and, despite attempts to establish himself in Toronto, he remained a frontier businessman all his life. Herbert Holt, despite a term of service on the frontier, became a business technocrat in one of the oldest business centers on the continent. Both men were perhaps influenced more by the environment in which they operated than by the circumstances of their birth, although these circumstances probably influenced each in the kind of business ventures he undertook.

William Mackenzie's Canadian Northern Railway was quite accurately described as "the West's Own Product." The Power Building in Montreal was similarly a product of that environment and community. The very different policies and practices adopted by the two men offer some specific insights into the relationships between frontier regions and the metropolitan centers of the St. Lawrence and, as a result, relationships between Canadian businessmen and the government.

The development of the prairie West and of the resources of other Canadian frontier areas required very large amounts of investment capital which had to come from outside the region. Influential businessmen in Montreal, particularly Herbert Holt and Montreal capitalists associated with the Canadian Pacific Railway and the Bank of Montreal, were cautious and unimaginative in their approach toward new and speculative ventures. They generally showed little interest in, or understanding of, frontier development projects until someone else had demonstrated their profitability. They viewed the Canadian economy in pessimistic hues of grey and black; a sharp contrast to the rosy views conjured up by frontier entrepreneurs like William Mackenzie who saw and became wildly enthusiastic about the promise of frontier development, but was often inclined to throw all caution to the winds and follow reckless expansionist policies until, even with government support, he could no longer beg, borrow or steal new investment capital.

Most Canadian politicians, other than those from Quebec, also viewed the Canadian economic world through rose coloured glasses after 1896; their enthusiasm for speculative development ventures equalling and often exceeding that of the most optimistic and venturesome entrepreneurs. Even William Mackenzie found it necessary to decline offers of government bond guarantees for projects he thought were clearly moonstruck. He certainly encountered few difficulties in persuading governments to underwrite substantial risks when conventional financing was unavailable. Governments, however, were compelled to demand greater control and regulatory powers over companies which received substantial government subsidies and guarantees. As a result Canadian Northern officials believed they had in fact embarked on a partnership with the government in pursuit of economic development.

The companies promoted by William Mackenzie, together with many other speculative ventures assisted by government, failed after 1914. Such failures often forced the Canadian government to choose between nationalization and the surrender of an embattled frontier venture to a takeover by cautious Montreal businessmen. Such takeovers, however, were only possible if governments agreed to withdraw from many of the regulatory powers they had negotiated with the development companies. Montreal and Toronto business technocrats demanded the power to institute operating and rate policies which emphasized immediate profitability rather than development and expansion. Most western Canadians regarded such a surrender as disastrous and intolerable. The Canadian government concurred. It is, therefore, not surprising that the chairman of the Canadian government's most important regulatory agency, the Board of Railway Commissioners, became a strong and very influential advocate of railway nationalization. He and many other members of the Canadian government had done too much business with men like William Mackenzie. They found Montreal business magnates like Herbert Holt and Thomas Shaughnessy too cautious and unimaginative to permit the return of complete control over essential industries and services to these individuals.

It is interesting to speculate what might have happened if Herbert Holt had accepted the invitation extended to him in 1895 to participate in a new western Canadian railway promotion. Perhaps, had they once again become partners, Herbert Holt and William Mackenzie would have developed a more balanced national business strategy. In fact their careers diverged in 1895. Much more work needs to be done before the significance of that divergence can be assessed accurately. It is sufficient to emphasize here that big business in Canada was not as monolithic or simplistic as some economic histories and most speeches to Chambers of Commerce or to discontented prairie farmers suggest.

NOTES

¹ A more extensive biographical outline of William Mackenzie is given in T.D. Regehr, *The Canadian Northern Railway, Pioneer Road of the Northern Prairies, 1895-1918* (Toronto, 1976) pp. 28-40.

² Details on the construction of the Credit Valley Railway are available in Provincial Archives of Ontario, RG 8, Ontario Railway Sessional Papers; and Shanley Papers.

³ R. Dosman, compl., *A Statutory History of the Steam and Electric Railways of Canada, 1836-1937* (Ottawa, 1937), p. 177.

⁴ For more detail regarding Holt's C.P.R. contracts see C.P.R. Archives, "Correspondence files, James Ross and Herbert Holt letters 1883-1886," and T.D. Regehr, "Contracting for the Canadian Pacific Railway," *Essays in Western History in Honour of Lewis Gwynne Thomas* (Edmonton, 1976) pp. 113-128.

⁵ John H. Dales, *Hydroelectricity and Industrial Development — Quebec, 1898-1940* (Cambridge, Mass., 1957).

⁶ W.F. Ryan, *The Clergy and Economic Growth in Quebec (1896-1914)* (Quebec, 1966), p. 293.

⁷ Public Archives of Canada, (P.A.C.) Laurier Papers, Vol. 353, pp. 94248-49;

Laurier to Lighthall, 2 Feb. 1905; *ibid.*, Vol. 409, p. 109057, Laurier to J.D. Cameron, 16 April 1906.

⁸ H.A. Fleming, *Canada's Arctic Outlet, A History of the Hudson Bay Railway* (Berkeley and Los Angeles, 1957), pp. 22-37; and T.D. Regehr, *Canadian Northern*, pp. 10-12, 33-34.

⁹ R.A. Christenson, "The Calgary and Edmonton Railway and the *Edmonton Bulletin*, unpublished M.A. Thesis, University of Alberta, 1967.

¹⁰ T.D. Regehr, "William Mackenzie, Donald Mann and the Larger Canada," *Western Canada Past and Present* (Calgary, 1975), pp. 69-83.

¹¹ Mackenzie's acceptance of government regulation on the Canadian Northern Railway is discussed in detail in Regehr, *Canadian Northern*, pp. 76-100.

¹² Carl A.S. Hall, "Electrical Utilities in Ontario under Private Ownership, 1890-1914," unpublished Ph.D. Thesis, University of Toronto, 1968; H.V. Nelles, *The Politics of Development*, (Toronto, 1974); Regehr, *Canadian Northern*, pp. 259-264.

¹³ Provincial Archives of Quebec, (P.A.Q.) Taschereau Papers: R.O. Sweezy to Premier Taschereau, 25 August 1931.

¹⁴ *Ibid.*

¹⁵ Gabriel Kolko, *Railroads and Regulation, 1877-1916* (Princeton, 1965); and Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916* (New York, 1963).

¹⁶ Holt's international ambitions are discussed in a number of secondary works, but are probably best revealed through the records of Consolidated Bathurst at the University of Quebec in Montreal.

¹⁷ Prior to the amalgamation of Royal Electric, Montreal Gas, and Chambly Manufacturing, Holt owned 412 shares in Montreal Gas (total shares issued 30,000 shares), 156 shares in Royal Electric (total shares issued 15,000) and 81 shares in Chambly Manufacturing (total 10,000 shares issued).

¹⁸ The one document most clearly expressing these sentiments is the *Canadian Northern Railway Encyclopedia* which became a handbook for that company's lobbyists in Ottawa and various provincial capitals. The same sentiment was expressed over and over again during the Canadian Northern Arbitration Hearings which established the price to be paid by the Canadian government for Canadian Northern Railway common stock.

¹⁹ The letter to shareholders signed by Holt and read at a Special Meeting of Directors of the Royal Electric Company on 17 December 1898 is a good case in point. Quebec Hydro Records (Q.H.R.), Vol. 22-39-6-50, Minute Book of the Royal Electric Company.

²⁰ T.D. Regehr, "William Mackenzie, Donald Mann and the Larger Canada," in *Western Canada Past and Present* (Calgary, 1975) pp. 69-83.

²¹ Q.H.R., Vol. 7-143-2-4, No. 10722, Contract for gas between the City of Montreal and Montreal Gas Company, 20 February 1884.

²² Q.H.R., Vol. 9-10-5-641; Minute Book of Royal Electric Company gives details of meetings of Directors, shareholders, and of the Executive Committee at the company's offices at 58 Wellington Street, Montreal.

²³ Relations between Royal Electric and Chambly Manufacturing Company were discussed in detail at a Special Meeting of the Directors of Royal Electric on 12 June 1893. Thereafter the minute books of both companies refer frequently to the relations between the two companies. Q.H.R., Vol. 22-39-6-644, Minute Book of Royal Electric Company; and Vol. 22-39-3-596, Minute Book of Chambly Manufacturing Company.

²⁴ There is a conflict between the minute book and the annual report of the company regarding the size of the dividend, the minute book stating it was 4%, the annual report 5%. The financial statements published in the annual report indicate a 5% dividend.

²⁵ Q.H.R., Vol. 22-39-6-50, Minute Book of the Royal Electric Company, pp. 47-73. Special Meeting of Directors 9 Nov. 1898.

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²⁶ *Ibid.*, pp. 60-73. Special Meeting of Directors, 17 Dec. 1898.

²⁷ *Ibid.*, pp. 184-203. Annual Meeting of Shareholders, 18 July 1899.

²⁸ *Ibid.*, Minute Book of Chambly Manufacturing Company, pp. 58-62 and pp. 63-70; Meeting of Directors, 29 September 1899 and Meeting of Shareholders, 10 October 1899.

²⁹ *Ibid.*, 22-39-3-649. Minute Book of the Royal Electric Company, pp. 1-5, Meeting of Directors 31 October 1899.

³⁰ *Ibid.*, 22-39-3-596, Minute Book of Chambly Manufacturing Company, pp. 72-79, Meeting of Directors, 20 November 1899.

³¹ Q.H.R., Vol. 7-143-2-4 No. 10722, Agreement between The City of Montreal and Montreal Gas Co. Supply of Gas, 20 February 1884.

³² *Ibid.*, No. 9 Acte de Depot of receipts by Herbert Holt, 11 March 1895; Acte de depot of a power of attorney by Herbert Holt, 11 March 1895; Transfer and subrogation from the Consumers Gas Company of Montreal Ltd. to the Montreal Gas Company, 11 March 1895; No. 10, Contract for Gas between the City of Montreal and Montreal Gas Company, 15 November 1895.

³³ In his annual report Montreal Gas Company President Jesse Joseph admitted on 28 March 1893 that there had been no less than 5,200 stoppages since December 10. Q.H.R., Vol. 9-10-1-629, p. 392.

³⁴ All these details are drawn from the Minute Books of the Montreal Gas Company (Q.H.R., Vols. 9-10-1-628 and 9-10-1-629), Consumers' Gas Company (Q.H.R., Vol. 9-10-1-589) and from the Archives Municipales de Montréal dossier 619 for various years.

³⁵ Q.H.R. 9-10-1-629, pp. 398 and 401. Meeting of Directors, 4 July 1893 and 17 October 1893.

³⁶ *Ibid.*, p. 407. Meeting of Directors, 6 February 1894.

³⁷ The relevant agreements are available in Q.H.R., Vol. 7-143-2-4 No. 9, and the main points are also outlined in the company's minute books. The arrangement whereby Messrs Coates & Son obtained an underwriting of Royal Electric bonds is given in Q.H.R., Vol. 22-39-3-646, pp. 31-36. Meeting of Directors, 6 November 1894.

³⁸ Q.H.R., Vol. 9-10-1-629, p. 430.

³⁹ Q.H.R., Vols. 7-142-3-747 and 22-39-1-749, Stock ledgers of the Montreal Gas Company.

⁴⁰ Archives Municipales de Montréal, Dossier 619, for various years.

⁴¹ The entire arrangement is outlined in considerable detail in Q.H.R., Vol. 22-67-2-623, pp. 1-14; Minute Book of Montreal Light, Heat and Power Company, Meeting of Incorporators, 4 April 1901. A later thorough investigative report confirms many of the details given in the minute books, this report being C.A. Ellis, *Report upon the Financial Affairs of Montreal Light, Heat and Power Consolidated and Its Component Companies*, Mimeographed, November 12, 1946. J.H. Dales based part of his study on Hydroelectricity and Industrial Development in Quebec on this report, although some of the factual details he gives about the predecessor companies of Montreal Light, Heat and Power do not accord precisely with the information contained in the minute books, contracts and stock ledgers of those companies. Dales did not have access to the company records.

⁴² A listing of shareholders of Montreal Light, Heat and Power Company as of 15 January 1902 is given in the minutes of the Special General meeting of Shareholders on that date; Q.H.R., Vol. 22-67-2-623, pp. 41-45. The stock registers and stock transfer books of Montreal Light, Heat and Power are very extensive. Early shareholders and the amount of shares owned by each are listed in Q.H.R., Vol. 7-142-3-940.

⁴³ In his first report the General Manager of the Sovereign Bank of Canada stressed that he intended "To secure a safe business and avoid losses, rather than do a large, and,

perhaps, risky business." Later, in heated discussions at Shareholders' Meetings, he repeatedly described himself as "conservative". J. P. Morgan and Deutsche Bank nevertheless used the Sovereign Bank in their American railroad manoevers. There is no evidence that the Sovereign Bank advanced any funds to finance the attempted Northern Pacific Railroad "corner", but Alaskan railway projects designed to link up with the more southerly transcontinental railroads by means of a steamship service were financed by the Sovereign Bank of Canada. These Alaskan ventures failed, in part because of developments following the attempted Northern Pacific "corner". The General Manager of the Sovereign Bank attempted to conceal the losses and filed allegedly fraudulent financial statements with the Canadian government and was forced to flee the country. The affairs of the Sovereign Bank are discussed in some detail in the records of the Canadian Department of Finance. P.A.C., R.G. 19, Vol. 3251, File 15055; Vol. 3187; File 11663; Vol. 3237, File 14236; Vol. 3253, File 15140; Vol. 3266, File 15732; Vol. 3251, File 15039; Vol. 3241, File 14473; Vol. 3190, File 11808; Vol. 3224; File 13492. *The Monetary Times Trade Review and Insurance Chronicle* also provides extensive, detailed, but not always entirely accurate accounts of the demise of the Sovereign Bank of Canada.

⁴⁴ Only brief and rather unsatisfactory histories of the Royal Bank of Canada are available, but they give the basic facts of Holt's relations with the Bank. C.H. Ince, *The Royal Bank of Canada, A Chronology, 1864-1969*, prepared and published by the Royal Bank for internal use by the Bank; and G.S. Dobson, *The Royal Bank of Canada 1864-1945* (Montreal, 1946).

⁴⁵ A very instructive insight into the business methods and attitudes of Herbert Holt is provided by Christopher Armstrong and H.V. Nelles, "Competition vs. Convenience: Federal Administration of Bow River Waterpowers, 1906-13," *The Canadian West*, edited by Henry C. Klassen (Calgary, 1977), pp. 163-180. Some similar and interesting material on the role Max Aitken played in organizing and then turning over to Herbert Holt the Montreal Securities Corporation and the Montreal Trust Company is also highly instructive.